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SIPDIS

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USDOC FOR ITA/MAC/CRUSNACK

SENSITIVE  
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TAGS: [ETRD](#) [TU](#)  
SUBJECT: TURKEY (NOT SURPRISINGLY) HOPES TO SAVE GSP

REF: A) STATE 128359

B) ANKARA 1898

1. (SBU) Summary. Turkish officials lost no time responding to news that the Generalized System of Preferences (GSP) program was up for review (ref a). State Minister for Foreign Trade Kursad Tuzmen's letters to USTR Schwab and Secretary Gutierrez were highly publicized in local media. MFA officials have also begun to chime in. Business reactions are more muted, but companies fear losing competitive advantage to countries enjoying preferential trade agreements with the U.S. Turkey's \$1 billion in GSP exports compose approximately 20 percent of Turkey's total exports to the U.S. If Turkey lost GSP benefits, its companies would face an average tariff of about 5% on these products. Even coming as part of global changes in the program, a loss of the benefits Turkish companies currently enjoy will be seen here as a policy decision deliberately and specifically aimed at Turkey. End Summary.

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Government Officials Take Lead  
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2. (SBU) Within days of our delivery of ref A, media highlighted State Minister for Foreign Trade Kursad Tuzmen's letter to USTR Schwab in which he argues that it would be unfair if Turkey lost GSP benefits because Turkish companies' competitors in the U.S. market benefit from preferential or free trade agreements (which Turkey is prevented from signing with the U.S. because of its membership in the European Customs Union). Tuzmen added in a handwritten postscript his hope that Turkey will receive favorable consideration from USTR during this review because Turkey accounts for only 0.3 percent of total U.S. imports.

3. (SBU) More recently, MFA officials have begun to speak up. During the recent American Turkish Council (ATC)-sponsored Staffdel, MFA officials responsible for bilateral relations appealed to the staffers to ask their Congressional Members to favorably consider Turkey during the GSP review process. They argued that eliminating Turkey's GSP privileges would benefit China and developed countries such as Italy the most, rather than shifting the benefits to less-developed countries. MFA officials are also raising the subject in meetings with Embassy officers.

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Business More Subdued, For Now  
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4. (SBU) Local Turkish jewelry producers told us that the loss of GSP benefits would negatively affect their \$384 million in GSP-covered exports, on which they currently do not pay the 5.5 percent tariff. While large producers such as Goldas, a company

based in Istanbul that produces high quality gold jewelry, could remain competitive, smaller companies who compete on very low profit margins would be driven from the U.S. market due to competition mostly from China. (Many of these smaller companies operate in Turkey's many covered bazaars, whose small business and tradesmen form part of the backbone of ruling AK party support.) Goldas representatives added that while they believe that larger, higher quality producers can remain in the market, they will certainly lose their competitive advantage, from which, according to them, Italian jewelry producers will benefit the most.

15. (SBU) We also recently began receiving correspondence on this issue. The Turkish Foreign Trade Association and the Turkish Exporters Assembly wrote the Ambassador to argue that the loss of Turkey's GSP privileges would mostly affect Turkish SMEs and reduce our bilateral trade volume below its already relatively small level.

Losing trade benefits during Minister Tuzmen's "Year of America," they added, would be an "ironic circumstance to evolve in a negative direction." TURKTRADE also echoed Minister Tuzmen's argument that other countries that might lose their GSP privileges also enjoy benefits under other preferential trade agreements with the U.S.

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COMMENT: Not Unexpected  
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16. (SBU) Because A/USTR Shaun Donnelly alerted his counterparts in the January 2006 Trade and Investment Framework Agreement (TIFA) Council meeting that Congress was considering a review of the entire GSP program, ref A did not come as a complete surprise to FTU officials. Still, the news will change the nature of U.S.-Turkey trade discussions, which have traditionally focused on Turkey's request for additional preferential arrangements for Turkish exports, such as under a QIZ program. If Turkey loses its GSP privileges, many here in the government and press will see it as a

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decision aimed specifically at Turkey and will spin political theories that go far beyond the commercial realm. The point that it was part of a global review of the program will be completely lost.

17. (U) TURKISH EXPORTS COVERED BY GSP

Product	2005 Exports (USD 1,000)	2006 YTD	Tariff
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1. Jewelry - gold or platinum	279,853	105,553	5.5
2. Jewelry - gold necklaces or chains	103,992	43,574	5.5
3. Copper wire	37,421	34,386	4.9
4. Marble (not slabs)	32,709	18,896	4.9
5. Olive oil	31,548	11,315	USD.034/kg
6. Motor vehicle parts	30,212	15,954	2.5
7. Aluminum plates	24,538	10,398	3.0
8. Travertine, dressed or polished	22,538	0	4.2
9. Copper parts for certain appliances	21,782	9,720	3.0
10. Travertine, flat surface	15,684	0	4.2
11. Furskin apparel	15,305	2,077	4.0
12. Copper wire, not insulated	14,436	8,335	3.0
13. Propylene sheets film, etc.	14,218	8,202	4.2
14. Olive oil	13,874	13,195	USD.034/kg
15. Other calcareous stone	12,535	6,966	4.9
16. All others	396,351	254,674	
TOTAL GSP EXPORTS	1,067,000	543,245	

Note: Total Turkish 2005 imports USD 5.1 billion.

